The groundwork we lay today will make for a better company tomorrow.

Financial Objectives

RJR NABISCO

RJR NABISCO'S MISSION

RJR Nabisco's mission is to increase the wealth of all its shareholders through stock price appreciation, dividend payments or a combination of the two.

That can only be accomplished by producing strong growth in earnings over a sustained period of time.

To deliver the earnings necessary to create market recognition and increase shareholder value, RJR Nabisco has set ambitious goals for itself. We have defined a clear set of financial objectives which we are sharing with the 63,000 employees of RJR Nabisco, with our shareholders and with the investment community. These financial objectives and other performance benchmarks will guide our efforts.

This document summarizes our financial objectives and provides background on the concept of "cash" net income, which is the foundation of our goal-setting process and our performance measurement system.

THE CASE FOR "CASH" NET INCOME

What is "cash" net income?

"Cash" net income is the company's net cash earnings after providing for taxes, depreciation and financing charges. It is the same as net income before amortization of trademarks and goodwill (adjusted to reflect the non-cash tax provision attributable to the amortization of trademarks). The company expects that depreciation charges will approximate the cash needed to fund normal maintenance, modernization and growth capital requirements.

Why base financial objectives and corporate performance measurement on "cash" net income instead of using the traditional measurement?

RJR Nabisco's primary mission is to produce sustainable earnings growth, the engine that drives reinvestment in existing businesses or new ones.

"Cash" net income simply adds back to reported net income the after-tax, non-cash charges RJR Nabisco records for trademarks and goodwill amortization, neither of which affects the amount of earnings available to fund incremental business investment, pay dividends, buy back common stock, or pay down debt. As a result, "cash" net income provides a more realistic measurement of the company's true earnings power.

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For RJRN, performance against our "cash" net income-based goals will be our key internal benchmark. That's why we believe it is critical for our shareholders and for the financial community to understand the concept and its importance in evaluating and measuring our performance. It will drive everything we do.

By presenting our financial objectives and performance measurements on a "cash" net income basis, we are providing shareholders, investors and RJRN management with valuable financial information to measure our ability to grow the company and our progress in doing so. We also believe it's the best measure of the resources available to grow the business and the best measure of how well those resources are used to increase value for shareholders.

We are convinced – and experience supports our conviction – that growth of "cash" net income over time will enrich shareholders.

For example, the value of "cash" net income as an adjunct benchmark to traditional measures is clear when used to contrast RJR Nabisco's nine-month results.

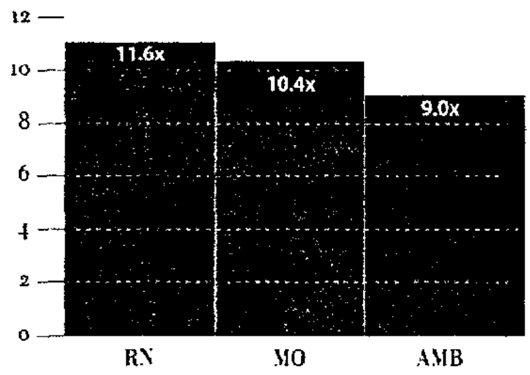
9-Month EPS
RJR Nabisco Holdings Corp.

	Reported Net Income	"Cash" Net Income
1992	$.45	$.73
1993	$.31	$.60

Traditional earnings per share (EPS) reporting shows the very real bottom-line impact of 1993's competitive environment in the domestic cigarette business. "Cash" net income provides additional, useful insight into company performance, clearly showing the resources available to invest in growth opportunities. "Cash" net income provides a more complete picture than is revealed by looking at just the bottom line.

Here's another example, this time looking at price-to-earnings (P/E) valuations within our peer group of tobacco companies.

P/E Ratio Comparison
(Based On Trailing 12-Month Earnings; as of Nov. 1, 1993)

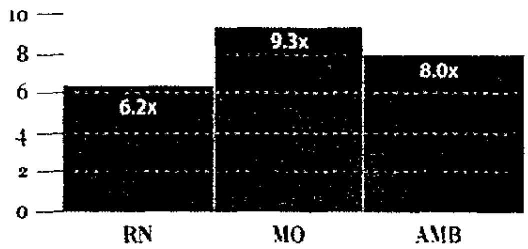


Using standard P/E calculations, based on 12-month trailing net income, RN trades on a comparable basis with major peer companies.

However, measured on its capacity to deliver earnings to produce *growth* – cash earnings – RN trades at a significant discount to tobacco peer companies.

Traditional P/E calculation values RN at a slight premium to MO and AMB; however, "cash" P/E shows a different story, suggesting that the market is not fully recognizing the current and potential values of RN.

"Cash" P/E Ratio Comparison
(Based On Trailing 12-Month Earnings; as of Nov. 1, 1993)



The valuation relative to American Brands is particularly revealing, given AMB's diversification beyond food and tobacco and its substantially smaller share in domestic tobacco.

We believe that P/E calculations using the "cash" formula present a clearer "apples to apples" picture of valuation and potential in the tobacco peer group.

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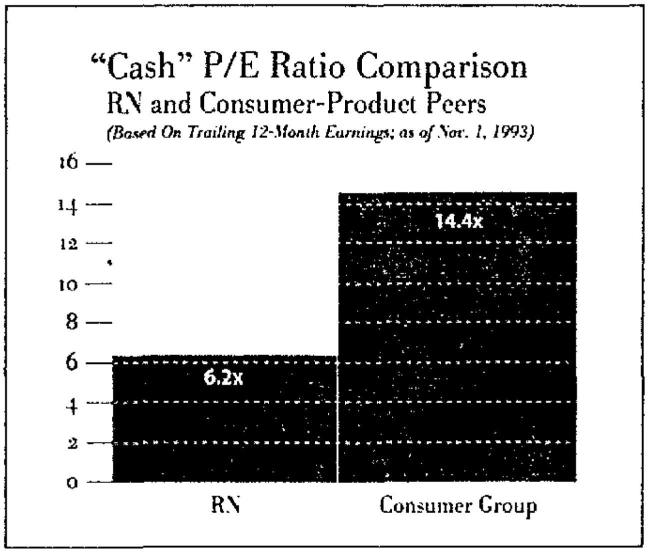
The clarity of comparison is even more dramatic when we compare a peer group of consumer products companies on a "cash" P/E basis.



Here again, the additional insight provided by "cash" P/E shows a different picture of current and potential performance and valuation.

When measured by our "cash" net income – our capacity to grow – RJRN appears undervalued relative to both tobacco and consumer-products peers.

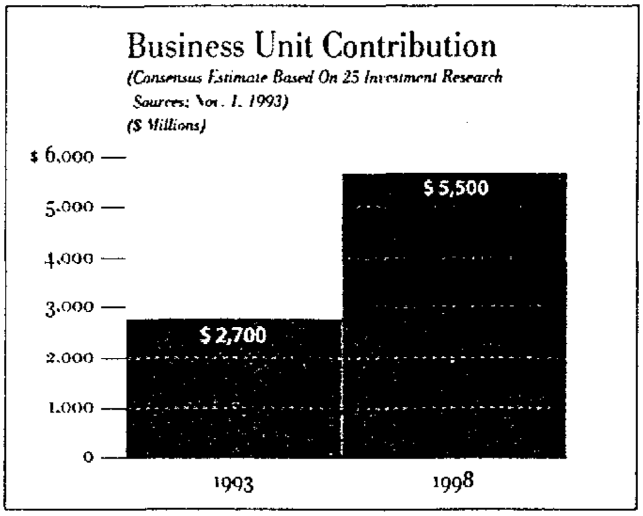
RJRN'S FINANCIAL OBJECTIVES

1) "Cash" Return on Equity

Objective: RJR Nabisco's objective is to achieve a 20 percent after-tax "cash" return on year-beginning common shareholders equity.

Formula: "Cash" return on equity is determined by dividing our "cash" net income (after deducting preferred dividends) for a year by shareholders common equity at the beginning of that year.

All capital investment decisions – new businesses, plant, equipment, etc. – will be evaluated in terms of the potential "cash" return on equity (ROE) to the individual operating company and in comparison to potential returns from other RJR Nabisco businesses.



Assuming we meet our ROE goal over time, the impact on our company would be substantial.

The chart above shows the current consensus Wall Street estimate for our 1993 business unit contribution (operating income before amortization of trademarks and goodwill): $2.7 billion. Holding to a 20 percent ROE standard over five years more than doubles our performance.

2) Trendline "Cash" EPS

Objective: RJR Nabisco's objective for trendline "cash" earnings-per-share growth is 15 percent.

Formula: "Cash" earnings (after deducting preferred dividends) is divided by the average number of common shares and common share equivalents outstanding during the period to derive "cash" earnings per share.

The company's trendline "cash" earnings per share is a critical measurement of momentum for "cash" earnings growth, and consequently share price appreciation, over time. Although "cash" earnings per share may vary from quarter to quarter or year to year, the company's share price should appreciate substantially over an extended period if the company achieves its "cash" return-on-equity objective and attains a superior trendline for growth. Strict adherence to this performance standard would double our "cash" earnings in five years. The trendline begins in 1994 and moves forward from there.

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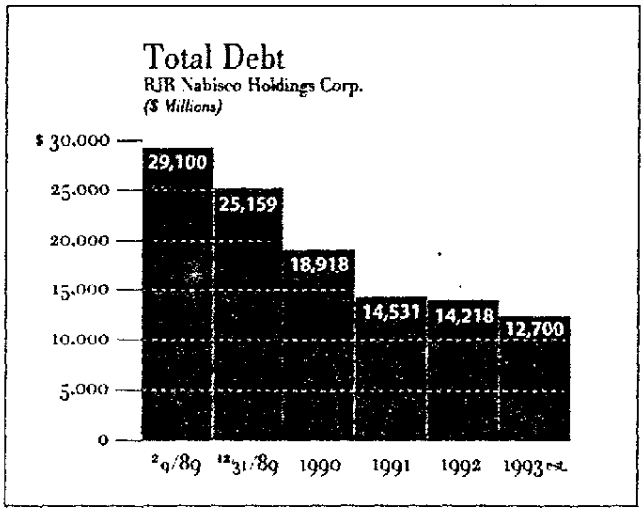
3) Capitalization and Interest Coverage

Objective: RJR Nabisco's objective is a capitalization ratio of 43 percent debt. The company's interest coverage objective is to produce cash flow from operations that is 2.7x total interest and preferred dividends.

Formulas: The capitalization ratio is based on the ratio of long-term debt (any debt that bears interest on an ongoing basis and would have to be repaid upon company liquidation) to total capital. Total capital includes long-term debt, deferred taxes and other long-term liabilities and preferred and common equity.

The interest coverage ratio will measure the company's ability to service its annual interest payments and preferred stock dividends. The ratio is derived by dividing business unit contribution plus depreciation by total interest expense and preferred dividends.

Debt reduction has been a top priority at RJRN in recent years. The company has significantly improved its balance sheet since its buyout, with more than half of all debt paid down since 1989.



Initially, as we manage toward our capitalization objective, a portion of free cash flow will be used to reduce debt to the 43 percent standard. Once the capitalization standard is reached, all free cash flow will be reinvested in profit-generating projects.

We believe a 43 percent debt-to-capital ratio and a 2.7x interest coverage ratio are appropriate targets that balance the need to access capital markets at appropriate rates and the need to invest excess cash to grow our business.

SUMMARY: OUR COMMITMENT TO SHAREHOLDER ENRICHMENT

RJR Nabisco is a consumer-products powerhouse. We have the resources we need to meet our financial objectives: a stable of powerful brands, exceptional manufacturing and distribution capability, talented people and cash flow well in excess of most major consumer-products companies.

We are managing in a tough environment, in both the food and tobacco sides of our businesses. In spite of any short-term industry challenges that exist, we intend to maximize the exciting opportunities that exist for us worldwide. We are managing one of the best consumer-products companies in the world today and we are managing it for one reason: to benefit our shareholders.

We are taking the unprecedented step of sharing these very specific objectives with shareholders and the financial community because we want to demonstrate our commitment to shareholder enrichment. Meeting our objectives will deliver these results. We will exceed these objectives some quarters, some quarters we will fall short, but over time, as we meet our objectives, our shareholders will reap the rewards.